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July 23, 1990

Pensions & Investments

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AT DEADLINE

Travelers, investors to meet

In an apparent effort to mollify restless investors, officials of Travelers Insurance Co. Separate Account R have agreed to meet July 26 with participants in the troubled commingled real estate fund.

The fund has been the center of controversy and at least one lawsuit. Some investors, including the Dallas Police and Fire Pension Fund and the Maine State Retirement System, have been seeking the return of their investments in the fund since 1986.

ESOP notes refinanced

American Express Co. has refinanced $112.4 million of floating-rate notes issued to fund its ESOP using a grantor trust, the most recent company to employ the strategy.

The grantor trust structure allowed American Express to achieve what might be the lowest rate ever on ESOP-related debt.

No rate was disclosed, but American Express reportedly paid 8 to 10 basis points less than Exxon Corp. did in its issuance in which it paid a spread of 90 to 100 basis points over Treasuries.

Managers, consultant hired

Avatar Associates has been hired to manage a tactical asset allocation account of undisclosed size for the $1.7 billion ICMA Retirement Trust, Washington. . . . The Howard Hughes Medical Institute, Bethesda, Md., has hired Trust Co. of the West to manage a high-yield bond account for its $5.6 billion endowment. A fixed-income account managed by Fidelity Trust Co. was terminated. Account sizes were not disclosed. . . . The $9.5 billion Pennsylvania State Employes' Retirement System has retained Ronald A. Karp Associates as its real estate consultant.

Whatley quits Russell

J. Anthony Whatley has resigned as senior vice president and director of marketing and sales for all Frank Russell companies and divisions.

Mr. Whatley, who had been with Frank Russell 13 years, said he intends to go into business for himself, probably in money management. No immediate replacement will be named, said George Russell Jr., chairman of Frank Russell.

Personnel shifts

Gilbert Garcia, a former Salomon Brothers Inc. mortgage-backed securities specialist, has joined Cisneros Asset Management Co. as a partner. He is the first addition to the year-old firm's portfolio management group. . . . Gary N. Yalen, formerly executive vice president of the recently merged Bank of New York/Irving Trust has been appointed chief investment officer of AMEV Asset Management, which runs $2.1 billion in investment portfolios.

Budget crunches smite state funds

By Trudy Ring

Nine states are expected to trim more than $1 billion from their pension fund contributions through actuarial changes as public officials seek ways to cut spending.

At least one other state — Illinois — is reducing contributions without making any actuarial changes.

While some pension officers warn such cuts might be shortsighted, other state officials find pension contributions a relatively painless and politically safe area to cut spending during budget squeezes. Also, the excellent performance of the capital markets in recent years has made pension funds look as though they could do with lower contributions.

"What (states) save this year will cost them a lot more over the years to come," said Edwin C. Gallison, director of the $7.8 billion Arizona State Retirement System, Phoenix.

The Arizona Legislature last year changed the actuarial method specified in law to the projected unit credit method from the entry age normal method, the result being a $281 million reduction in accrued liabilities and a smaller contribution from the state, he said.

The other states that reported some changes were California, New York, Connecticut, Minnesota, Louisiana, Rhode Island, Vermont and Missouri. Officials at 49 states were interviewed for this story; Wisconsin officials did not respond by press time.

Some finance experts say there's nothing inherently wrong with changing assumptions to reduce contributions.

Many public pension funds did well in the bull stock market of the 1980s, and many are well-funded — an average of 75% for large state plans, said Cathie Eitelberg, director of the Government Finance Officers Association's pension and benefits program. It's naive to think governments won't look at contributions in budget crunches, she said.

Also, there are numerous differences of opinion on the soundness of various actuarial methods, she

See **States** *on page 34*

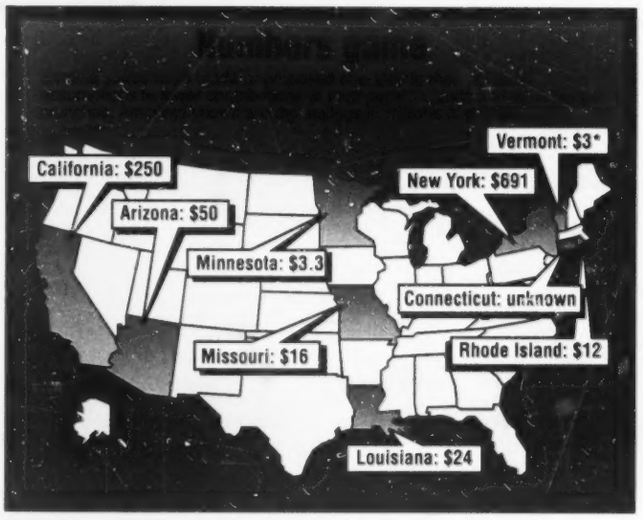


Photo by Linda Sue Scott

PG&E's Sunny Oberoi is bullish on foreign investments.

'Ahead of the pack'

Sunny Oberoi keeps PG&E in forefront

By Steve Hemmerick

SAN FRANCISCO — The $3.1 billion Pacific Gas & Electric pension fund has invested 15% of its assets in foreign stocks, two to three times the typical pension fund's allocation.

And Sunny Oberoi, direct-investments and benefit finance, doesn't expect to stop there. He and his pension committee hope to increase the amount to 25%.

"We're ahead of the pack," said Mr. Oberoi, considered by industry professionals to be one of the brightest, most forward-thinking pension executives.

Indeed, PG&E's pension fund has been out of Japan since the first of the year, missing the 26.7% slide in that market between Jan-

See **Oberoi** *on page 33*

Tax talk invading pension sanctuary

Securities levy may slash fund revenue

By Hillary Durgin

Some pension industry experts are running scared over talk of a broad-based securities tax that could cost pension funds nearly $1.6 billion in annual revenue.

"It's the first obvious invasion into the private pension system from a tax point of view," said Roger C. Bransford, national director-asset consulting for TPF&C, a Towers Perrin company, Atlanta.

Public fund officials argue the tax would slash revenue, forcing employers to increase taxes and shear benefits. California's five largest pension funds, for example, would lose $134.2 million annually, said James D. Mosman, chief executive officer of the California State Teachers' Retirement System.

But corporate pension executives consider a tax on securities transfers preferable to other, more direct tax options.

And now that lawmakers have sharpened their tax-collecting scalpels, many corporate executives are resigned to some form of broad-based tax so the Bush administration can address the nation's $168.8 billion deficit.

"The notion that the private pension plan is going to try to escape that (tax) is Alice in Wonderland," Mr. Bransford added. "This is too big a potential source of revenue enhancement for them not to do something with these funds."

The 0.5% tax, known as the securities transfer excise tax, would cost a $500 million pension fund with a 25% turnover rate about $625,000 annually, estimated Philip Grant, partner with Hewitt Associates in Rowayton, Conn.

The tax would apply to individuals, corporations and tax-exempt institutions on sales of stocks, bonds, options and foreign trades by Americans. Treasury securities would be excluded.

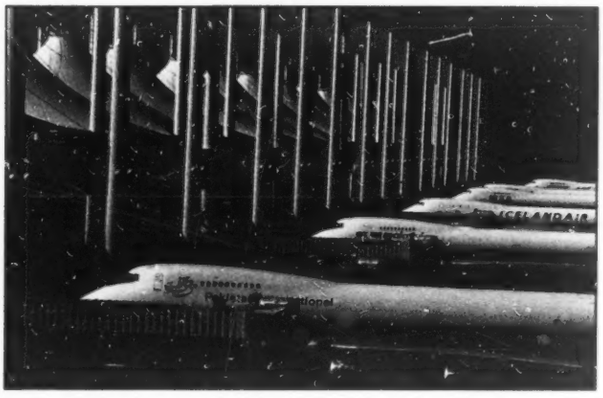
While the tax has not been proposed officially, it is one of many revenue-raisers budget summit negotiators are considering to reduce the deficit.

As outlined by the Congressional Budget Office in its annual list of spending and revenue options, the levy would net $7.8 billion in 1991 and $57.7 billion during the five-year period through 1995. It could not be learned what turnover rate was assumed in those estimates.

Pension funds would contribute about $1.6 billion in annual revenue if a 0.5% tax were levied, estimated Philip Schneider, consultant with Wyatt Asset Services, Chicago. Mr. Schneider's calculation assumes a conservative 20% annual turnover rate and is based on total plan assets of $1.6 trillion — excluding private insured assets — as estimated at the end of the first quarter by the Employee Benefit Research Institute, Washington.

See **Transfer** *on page 34*

NEWS DIGEST



The leveraged buy-out of Parsons Corp., contractor for the Jeddah International Airport in Saudi Arabia, by its ESOP was upheld by a federal judge. Page 24.

Fallout from Pennsylvania's anti-takeover law is mounting, with as many as 23 companies opting out of all or some provisions. Page 4.

***P&I*'s Corporate Top 50** survey shows the health of the largest defined benefit plans remains strong. Page 23.

SPECIAL REPORT: FOREIGN BUSINESS

U.S. money managers posted substantial gains in both equity and fixed-income assets managed for foreign institutional clients despite flat market performance during the year ended March 31. Page 21.

FINANCING

Bear Stearns and Salomon Brothers are among those working on asset-backed deals to provide Eastern Europe with needed capital. Page 3.

INTERNATIONAL

PG&E's Sunny Oberoi hopes to boost the pension fund's foreign equity exposure beyond 15%, keeping it at the fore among global investors. Page 1.

Connecticut, Rhode Island and GTE give their international managers regional mandates in an attempt to boost returns. Page 2.

REAL ESTATE

Realty advisers, coming to grips with their errors, turn to modern portfolio theory and other approaches to try to prevent future writedowns. Page 3.

The Shell Oil and AT&T pension funds are participating in the buy-out of Income Properties Inc., a publicly traded real estate investment trust. Page 6.

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Real estate survey under way

Questionnaires for *Pensions & Investments*' annual survey of real estate investment advisers have been mailed. The deadline for return of the questionnaires is July 29; the survey will be published Sept. 3. If you qualify for inclusion and did not receive a questionnaire, or have questions about the survey, please contact Christine Philip, directory coordinator, at (312) 649-5217.

Equity exposure cut 20%

Missouri State Employees' drops realty, venture capital

By Marlene Givant Star

JEFFERSON CITY, Mo. — The $1.6 billion Missouri State Employees' Retirement System is cashing in on the bull market stock gains of the 1980s by reducing equities nearly 20%.

The fund also is phasing out real estate and venture capital investments. It has terminated Eastdil Realty Inc., New York, its only real estate manager, bringing in-house the management of the $120 million in properties.

The venture capital manager, Brinson Partners Inc., Chicago, will remain on-board until its investments can be profitably unwound, but the firm won't make new investments.

"It was a very good time in 1982 to go heavily into equities. . . . It's time to pull back and take some gains off the table," said Steve Yoakum, executive director of the Missouri fund.

The timing of the real estate allocation, on the other hand, was anything but fortuitous.

"In real estate we didn't start buying until 1983 and 1984, probably the peak of the market. Returns have been considerably less than stock over that time. Real estate was added as a defensive hedge, but now we don't see inflation as a major problem for us in the intermediate future. I hope we're right," he said, noting the decision was no reflection on Eastdil's performance.

Venture capital was considered too risky to pursue because investments tie up money for a long time, he said.

Within the equity asset class, the fund also has made some shifts. Great American Investment Management Co. Inc., St. Louis, was hired to run the fund's first stock index account. Assets for the $100 million index fund will be taken from a yield-oriented equity account managed by Philadelphia-based Delawar Investment Advisors.

Equities were reduced in Marc when the fund cut by $110 millio an account managed by Allianc Capital Management, San Fran cisco. Mississippi Valley Advisors St. Louis, was hired to manag the assets in an intermediate term, fixed-income account. Alli ance now manages $190 million.

As an added bonus, the passiv hire and real estate terminatio reduced investment managemen fees by $1 million in 1989.

Fund officials are payin greater attention to investmen management costs, which ar mounting on an absolute basis a assets climb, even though they ar falling as a percentage of tota assets.

Over the last six months, th fund has added four internal in vestment and accounting analyst to handle real estate and othe asset classes.

See **Missouri** *on page 3*

Funds test regional waters

By Margaret Price

Pension funds increasingly are turning to regional foreign investing to gain more control over their international allocations and to try to boost their performance in certain regions.

Among those hiring regional managers are the $8.4 billion State of Connecticut Trust Funds, Hartford; the $2.4 billion Rhode Island Retirement System, Providence; and the $11 billion GTE Corp. pension fund, Stamford, Conn. GTE hired its first regiona manager, for Japan, two year ago. The fund now has three re gional managers, including a sec ond hired this year for Japan.

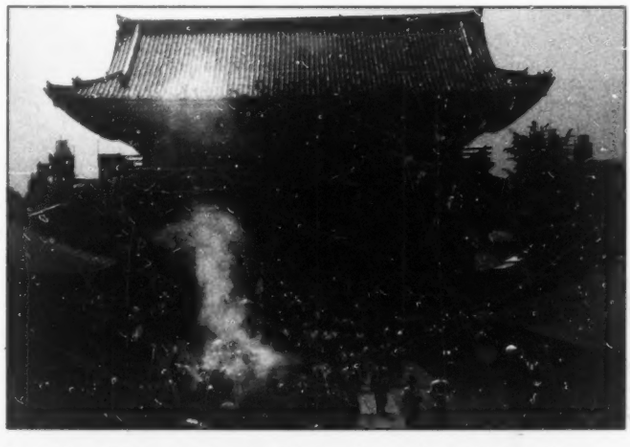


Photo by Margaret Price

Targeting Japan, or other specific foreign regions, is becoming more popular among pension funds investing overseas.

The IBM Corp. pension fund Stamford, Conn., reportedly i considering hiring regional man agers.

These managers typically focu exclusively on markets of one re gion such as the Far East, Europ or Japan alone.

The regional phenomeno began about two years ago amic concerns about how much shoul be allocated to the Tokyo market By year-end 1989, pension fund had invested $3.1 billion in coun try or regional mandates, al though they had $89 billion in vested internationally, accordin to InterSec Research Corp., Stam ford, Conn.

This year, however, interest i regional investing began to perco late.

World political/economic devel opments, such as those in Japa and Eastern and Western Europ "are now being played out in in vestment strategies," explaine Arthur McCain, InterSec vic

See **Regions** *on page 3*

Virginia overhauls operations

By Curtis Vosti

RICHMOND, Va. — The Virginia Supplemental Retirement System has restructured its "top-heavy" investment operations and abolished two positions created just a year ago.

It's difficult to ascertain the exact nature of all the changes made after the June 14 board meeting. Although four positions were eliminated and perhaps a dozen new reporting assignments made, there is no report upon which the changes are based and there hasn't been a consistent voice from system administrators about how the dust has settled.

But what is clear is following the February resignation of Board Chairman Charles Walker, the $12 billion retirement system is knee-deep in controversy.

Within the past six months, the system has faced:

- a directive from Gov. L. Douglas Wilder to divest of South Africa holdings;
- criticisms of its disclosure policies;
- lawsuits about alleged illegal meetings;
- a ticklish situation involving a proposed merger, since called off, between two railroads, in one of which the system owned 20% of the stock; and
- strident criticisms from Mr. Walker, a consummate Virginia political insider who resigned over disagreements with Gov Wilder.

Observers say the system's res tructuring appears to end a con tinuing battle between Mark Finn, a board member since the mid-1980s, and Mr. Walker, who had been board chairman since 1981. In the past, the battle was controlled by Mr. Walker, but with his resignation and the ap pointment of Jacqueline Epps as board chairwoman, Mr. Finn pushed the board to move on a restructuring that he had been proposing for a couple of years.

It was just a year ago that the board advertised for a deputy in vestment director and ended up hiring two: Malcolm "Rudy"

See **Virginia** *on page 3*

PEOPLE

Pension fund business does have its share of quirks

■ To hear Paul Quirk talk, public pension fund executives deserve hazard or combat pay.

Mr. Quirk, executive director of the Massachusetts Pension Reserves Investment Management Board, has a long list of how, in public funds, "the businesslike way of running a pension fund gets diverted."

He shared some examples during a speech at *Pensions & Investments'* investment management conference in Washington last month:

- After making the front page of the Boston Globe for his business travels, Mr. Quirk now is seeking a corporate pension executive to co-author a book, "Plan Sponsor Resorts of the World."
- When the Massachusetts Legislature passed a bill requiring state funds to divest of stocks of companies doing business in South Africa, PRIM was all in bonds.
- Massachusetts politicians practically were shouting, "The British are coming," when a British firm tried to take over Norton Co., Worcester, Mass. Mr. Quirk, concerned about whether his fund would get caught in the crossfire, was "delighted" to discover Norton had a South African subsidiary. "That way, we didn't own the stock."

Photo by John Kennard

PRIM's Paul Quirk can attest to the trials and tribulations faced by many pension fund executives.

MONEY MANAGERS

Enhanced indexing gives firm a lift

■ Enhanced indexing has enhanced Advanced Investment Management Inc.'s business: the Pittsburgh firm's assets under management grew about $600 million during the second quarter.

Most of the growth is due to the enhanced stock index fund strategy, which accounts for about $800 million of the firm's $1.5 billion under management.

The newest clients for the strategy are the $16 billion Pennsylvania Public School Employes' Retirement System, Harrisburg, and the $2.5 billion Minnesota Mining & Manufacturing Co. pension fund, St. Paul, Minn. Neither fund would disclose the amount placed.

Other clients include Bayer USA Inc. and Westinghouse Electric Corp., both of Pittsburgh, and Hershey Foods Corp., Hershey, Pa.

The indexed strategy, which is enhanced with futures and options trades, carries no fee unless Advanced beats the Standard & Poor's 500 Stock Index by at least 30 basis points a year. If Advanced outperforms the index by the target amount or more, its fee is 0.3 times the outperformance.

From the beginning of 1990 through mid-June, the strategy beat the S&P 500 by 45 basis points, said J. Thomas Allen, Advanced president. In the past couple of years, its annual outperformance has amounted to between 150 and 200 basis points, he said.

Advanced intends to limit the amount it manages in the enhanced index strategy to $1 billion.

"There isn't infinite liquidity for the enhancements we offer," Mr. Allen said. "At some point it gets hard to make the elephant dance."

J. Thomas Allen of Advanced Investment Management.

CORPORATIONS

Shareholders third in executive poll

■ Corporate executives believe they owe a great deal of responsibility to shareholders, but they put an even greater emphasis on responsibility to customers and employees, according to the results of a new survey.

The survey, commissioned by the New York advertising and public relations firm Brouillard Communications, found 97% of the 500 executives participating feel a great deal of responsibility toward customers, while 94% said they feel this way toward employees and 87% see this amount of responsibility to shareholders.

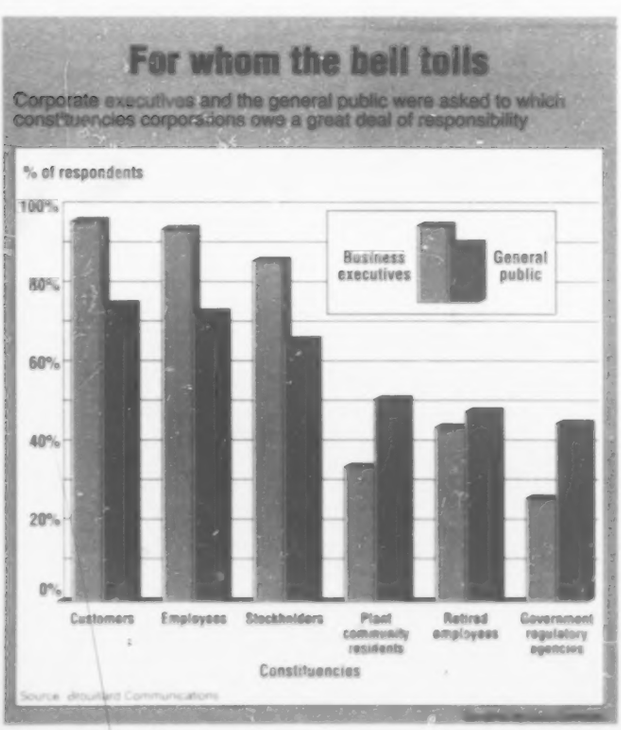
A smaller percentage of respondents assigned great corporate responsibility to plant community residents, retired employees and government regulatory agencies.

"During much of the 1980s, management's fiduciary responsibility to stockholders seemed to transcend everything else," said Jim Foster, president of Brouillard.

"Today, it looks as though corporate America has its sights on a broad constituency."

The general public's priorities are similar to those of the executives, the survey indicated. Among 1,000 members of the public surveyed, 76% said corporations owe great responsibility to customers; 73% said employees; and 66% said stockholders.

Opinion Research Corp., Princeton, N.J., did the study for Brouillard.



REAL ESTATE

Office vacancies to hover at 19%

■ The national vacancy rate for office buildings should remain about 19.2% for the next 24 months, according to a real estate research report by Salomon Brothers Inc., New York.

The report, "Weak Office Markets," said construction of office space slowed in 1989 by 90 million square feet compared with the peak in 1986.

The rate of increase in job growth, however, has declined along with the drop in construction.

"The nearly parallel descending paths of supply and demand make it clear market equilibrium is several years away and that a painful process of adjustment continues to lie ahead," the report stated.

Part of the reason for the fall in demand, according to the report, was the end of sharp growth in finance, insurance and real estate services. Those areas helped create the office property boom of the '80s.

The report said that through 1991, Austin, Texas will show the sharpest decline in office vacancies, to 26% in December 1991 from 32.1% as of December 1989.

The city with the sharpest climb will be Charlotte, N.C. It had 14.3% office vacancy in December 1989, and the Salomon report predicted a 1991 rate of 19.4%.

GUARANTEED CONTRACTS

BIC data tallied

■ Outstanding bank investment contracts totaled $7.5 billion at year-end 1989, or 4.4% of the $172 billion in outstanding BICs and guaranteed investment contracts, the Federal Reserve Board estimated.

Banks expect to issue another $3 billion in BICs in 1990, the Fed said. The survey also found 26 banks issue BICs, while another five plan to enter the market this year.

Wyatt's Noriyuki Morimoto expects Japanese pension executives to want more information for determining asset allocations.

INTERNATIONAL

Wyatt's project unusual in Japan

■ The liberalization of pension investing in Japan has lured one U.S. consulting firm to the meat market.

The Japan Ham and Sausage Industry Employee Pension Fund, Tokyo, hired The Wyatt Co.'s Japanese subsidiary to handle what might be the first asset/liability modeling assignment awarded by a Japanese pension fund.

The fund provides pensions for 128 companies in the ham and sausage industry, and has 18.6 billion yen, or about $125 million, in assets.

The opportunity to link the actuarial side of pension evaluation with asset consulting is particularly important in Japan, where there are a number of plans that are not funded and where no other pension funds have done this type of forecasting, said Owen McCaffrey, vice president and actuary in Wyatt's Chicago office.

The consulting assignment also affords Wyatt entry into the traditionally impenetrable Japanese pension business, according to Noriyuki Morimoto, asset services consultant with in Wyatt's Tokyo office.

"The most important thing will be investment policy," he said. It was "only three or four years ago (that) Japanese pension plan sponsors were allowed to set asset allocations," Mr. Morimoto said. "Now they are going to get more detailed information."

U.S. firms post big gains

Advisers run $112 billion for overseas clients

By Margaret Price

U.S. money managers reaped a substantial gain in assets from foreign institutional clients, a *Pensions & Investments* survey shows.

Sixty-nine investment management firms reported $112.341 billion under management from non-U.S. institutions as of March 31.

A year earlier, 49 managers reported $79.394 billion under management from non-U.S. institutions.

The 39 financial asset managers who responded to both this year's and last year's surveys saw their total assets from foreign clients surge 36.1% to $93 billion. Adjusted for market appreciation, their equity assets grew 54% and fixed-income, 43.6%. The managers reported totals of $33.57 billion in equities and $23.01 billion in fixed income.

The gains came despite a flat market for the year — the Morgan Stanley Capital International World index posted a −1.76% return and the Salomon World Government Bond Index advanced 2.56%.

Bankers Trust Co., New York, once again was the top firm in the survey's universe, (it was omitted inadvertently last year) with a total of $21.71 billion under management from overseas clients, up 42% from $15.263 billion last year.

Ranking second and third for the third year were Citicorp Investment Management, London, with $16.485 billion and Chase Investors Management Corp., New York, with $7.419 billion.

While most money managers reported increases in foreign business, a few firms — including The Boston Co. and Lazard Freres Asset Management, New York — reported drops.

The Boston Co. reported total foreign assets of $100,000 for the year ended March compared with $167 million the year before. Much of Boston Co.'s business from overseas clients last year was in structured investment products, a group that shifted to PanAgora Asset Management, Boston, a joint venture by Nippon Life Insurance Co., Osaka, Japan; Shearson Lehman Hutton Inc., New York; and Boston Co.

Lazard Freres' assets from foreign customers fell to $119 million from $135 million the year before. A Lazard Freres spokesman did not respond to a telephone inquiry about the drop.

H. Kent Atkins, executive vice president at Bankers Trust, cited the U.S. trade deficit — where money leaving the United States returned in the form of assets to be run by U.S. managers — in explaining his firm's 42% jump for the year.

Like a number of other top players in this arena, Mr. Atkins cited his firm's international stature, reputation and presence. "In a lot of these (foreign) markets, a firm's size and position are important positive features," he said.

"There is a comfort factor" for clients in dealing with such firms, and a "recognition that these people must have expertise," he said.

Mr. Atkins singled out Japan, from where the firm has attracted $6.477 billion in assets, noting Bankers Trust had been one of only nine foreign banks allowed to compete with Japanese trust and insurance companies in managing pension assets.

Citicorp not only benefits from its global investing ability but also its presence in 13 countries, according to Robert Troxler, the firm's director of cross-border marketing.

"We are very much involved with managing assets for local institutions," he said, adding many of these organizations prefer using local money managers.

In the past year, Citicorp further strengthened its network, integrating previously "free-standing" offices in Brazil, Chile, India and New Zealand "into the global Citicorp Investment Management organization," Mr. Troxler said.

But tightened foreign ties weren't the only keys to success for U.S. investment management organizations.

At Morgan Stanley Asset Management, New York, money under management from non-U.S. sources leapt 67% to $4.685 billion in the year ended March 31. Gail Reeke, vice president and international business manager, cited an appreciation among clients of the firm's management style — "a bottom-up value approach to international markets that is comparatively rare in money management circles."

That value approach has gained favor amid what she called growing "recognition that it works in the global marketplace and that it appeals to those concerned about the levels of certain markets, particularly Japan's."

Geographically, Bankers Trust obtained its single largest chunk of money — $8.907 billion — from Australia, while Citicorp's single largest chunk — $6.347 billion — came from Pacific Basin countries excluding Japan. The Middle East provided Chase Investors with $5.548 billion, its single largest source of foreign assets.

For money managers overall, Japan, followed by the Middle East, provided the two largest geographical sources of foreign assets.

Among types of clients, pension funds outshone other categories, providing U.S. managers with $22.572 billion. The second largest category was governments, which provided managers with $19.842 billion. Within this category, foreign banks were the laggards, providing a relatively slight $3.681 billion.

Among asset classes, active strategies — the traditional preference of foreign investors — remained dominant. Within this category, active equity investments remained the most popular, with $30.754 billion mandated for such accounts.

For Chase Investors, active fixed income was the single most popular investment category, attracting $2.837 billion from abroad.

A spokesman for the firm, who asked not to be identified, cited both the firm's "good and long-standing investment record in fixed income as well as the variety of fixed-income offerings" as reasons for its success.

The spokesman said the firm's investment products range from short-term investments to securitized mortgages and a broad range of quantitative offerings. Chase Investors also manages international bonds. ■

Foreign business

How assets are invested

	$ millions
Active equity	30,754
Passive equity	8,110
Active fixed	27,554
Passive fixed	89
Balanced*	29,742
Real estate equity	11,070
Venture capital	121
Cash	1,861
Other	2,498

Source of assets by clients

	$ millions
Pension funds	22,572
Insurance companies	15,883
Mutual funds	14,272
Corporations	14,525
Governments	19,842
Banks	3,681
Other	14,415

Source of assets by country/region

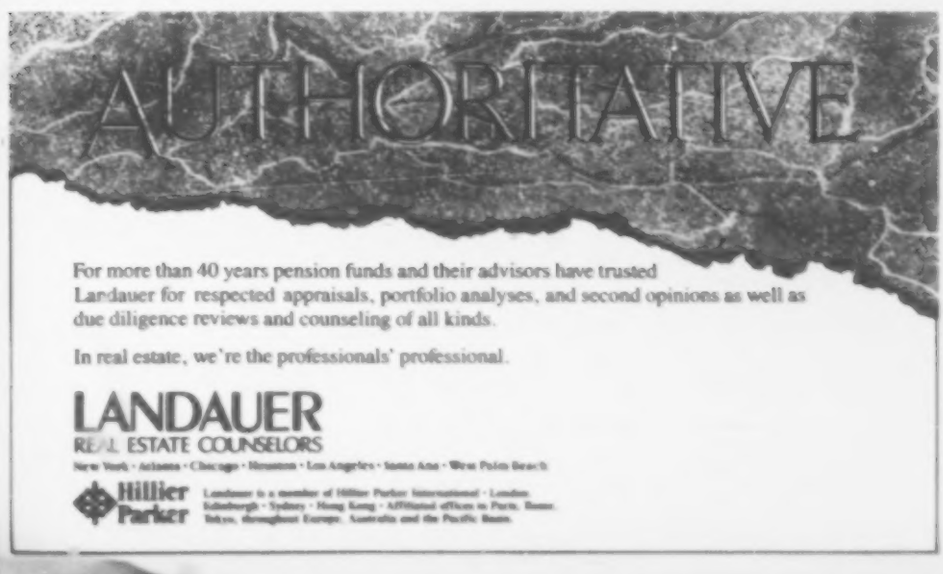
	$ millions
United Kingdom	12,284
Japan	24,947
Australia	13,130
Pacific Basin	9,350
Continental Europe	10,642
Canada	7,196
Middle East	21,899
Other	6,123

*Assets might be double counted in equity/fixed allocations

Top U.S. managers of foreign institutional assets

Firm	$ millions	Firm	$ millions
Bankers Trust	21,710	Smith Barney Capital	365
Citicorp Investment	16,485	Dimensional Asset	336
Chase Investors	7,419	Webster	234
Morgan Stanley Asset	4,685	Prudential Asset	233
CIGNA	4,240	Boston Int'l Advisors	195
Yarmouth Group	4,100	Miller, Anderson & Sherrerd	174
Capital Group	3,791	Goldman Sachs Asset	173
Wells Fargo Nikko	3,743	Brinson Partners	164
Chemical Investment	3,623	Discount Corp. of New York	139
Rosenberg Institutional	3,532	Dreman Value	138
Fischer Francis Trees	3,333	Bessemer Trust	137
Alliance Capital	3,240	RXR Group	136
State Street Bank	3,103	Oppenheimer Capital	128
Equitable Real Estate	2,541	BEA Associates	126
Merrill Lynch Asset	2,082	John Hancock Financial	124
Putnam	1,980	Lazard Freres Asset	119
Equitable Capital	1,960	Columbia Mgmt.	84
Brown Brothers Harriman*	1,696	Harris Investment	80
Templeton, Galbraith	1,606	PCM Int'l	80
Batterymarch Financial	1,578	GAMCO Investors	79
Manufacturers Hanover	1,514	Burgess Capital	74
Corporate Property	1,450	Bradford & Marzec	65
Continental Asset	1,434	Marinvest	64
Scudder, Stevens & Clark*	967	STW Fixed Income	60
Schroder Real Estate	789	TSA Capital	60
Fidelity Management Trust	766	Dodge & Cox	46
Posthorn Global Asset	712	Daniel Breen	31
Fayez Sarofim	650	Jennison Associates	24
Atlanta Capital	592	McCowan Associates	23
Grantham Mayo V. Otterloo	560	Investment Index Tech.	16
Wellington Mgmt.	553	Massachusetts Financial	12
Pacific Investment	547	Prudential Asia Fund	11
PanAgora Asset	486	Boston Co.	**
Prudential Equity	386	**Total**	**112,341**
Dewey Square Investors	385		
Mitchell Hutchins	373		

*As of Dec. 31
**Boston Co. manages $100,000.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Plan health continues to be good

By Terry Williams

The nation's 50 largest corporate defined benefit plan sponsors maintained their funds' relative good health in 1989, according to *Pensions & Investments'* survey of annual reports.

A little more than 73% of the plans in *P&I's* Corporate Top 50 — 46 plans out of a total of 63 — were fully funded in 1989, that is they had more assets than projected benefit obligations.

The survey covered the 50 companies with the largest amount of defined benefit assets, but included 63 plans because pension accounting rules require companies with more than one plan to list each separately where one fund is underfunded.

The average company in the Top 50 had $4.95 billion in accrued benefit obligations, $5.79 billion in projected benefit obligations and $7.1 billion in assets.

For the third year in a row, the top five plans with assets in excess of projected benefit obligations are sponsored by American Telephone & Telegraph Co., New York, reporting excess assets of $11.4 billion; General Electric Co., Stamford, Conn., $8.2 billion; IBM Corp., Stamford, Conn., $7.4 billion; E.I. du Pont de Nemours & Co., Wilmington, Del., $5.1 billion; and an overfunded plan of General Motors Corp., Detroit, $4.7 billion.

Plans whose PBO exceeded assets by the largest amounts include those sponsored by Chrysler Corp., Highland Park, Mich., reporting an underfunding of $2.74 billion; one plan of GM's, $1.87 billion; Bethlehem Steel Corp., Bethlehem, Pa., $1.17 billion; Westinghouse Electric Co., Pittsburgh, $628 million; and one plan of Ford Motor Co., Dearborn, Mich., $349 million.

The bull market of the last 10 years is responsible for the large percentage of pension funds being fully funded, according to Peter H. Roe, vice president with Reed Pension Consulting, Irving, Texas.

He warned the slowdown in the capital markets' rise and the growth in liabilities could result in underfunding in the future, particularly if a sponsor relies on unrealistic investment returns.

But he did not see any indication of that happening. Sponsors "are not kidding themselves about returns in this decade."

Interest rate and salary growth assumptions provide further insight into pension plan health.

David Kudish, managing director, Stratford Advisory Group, Chicago, said during the past five years, most corporate pension funds used an interest rate assumption of between 7% and 9% and a salary growth assumption of between 5.5% and 7.5%.

"From the statistics we have seen on performance, the range on investment returns has been between 15% and 20%," said Mr. Kudish. "Wage growth has been between 4% and 6%.

"You have favorable actuarial experiences on both of those key variables," Mr. Kudish said.

Projecting five years, Mr. Kudish forecasts a reduction in equity investments as more sponsors with overfunded plans seek to immunize pension liabilities using

P&I Corporate Top 50

Company	ABO	PBO	Plan assets	Plan assets in excess of ABO	Plan assets in excess of PBO	Net periodic pension (expense) income	Pension expense as a % of adjusted net income	Plan assets as a % of corporate assets	ABO as a % of stockholders equity
Alcoa OP	2,713.6	2,873.8	2,890.8	177.2	17.0	(98.2)	9.4	25.0	51.5
Alcoa UP	30.4	38.9	0.5	−29.9	−38.4	n/a	n/a	0.0	0.6
Allied-Signal OP	2,453.0	2,635.0	3,345.0	892.0	510.0	(98.0)	11.4	33.0	71.9
Allied-Signal UP	1,409.0	1,499.0	1,303.0	−106.0	−196.0	n/a	n/a	12.9	41.3
Ameritech	7,151.3	8,020.0	12,151.4	5,000.1	4,131.4	(53.5)	4.1	61.3	93.0
Amoco	1,925.0	2,400.0	2,804.0	879.0	404.0	(29.0)	1.8	9.2	14.1
AT&T	21,395.0	21,988.0	33,397.0	12,002.0	11,409.0	318.0	NM	88.6	168.0
Atlantic Richfield OP	1,301.0	1,460.0	2,427.0	1,126.0	967.0	10.0	NM	10.9	19.8
Atlantic Richfield UP	157.0	172.0	11.0	−146.0	−161.0	n/a	n/a	0.0	2.4
Bell Atlantic	8,025.0	9,385.5	11,344.7	3,319.7	1,959.2	(140.6)	11.6	43.3	93.4
BellSouth	7,151.0	8,761.6	1,085.8	−6,065.4	2,085.0	(152.1)	8.0	3.6	54.6
Bethlehem Steel	4,159.6	4,453.5	3,281.0	−878.6	−1,172.5	(172.2)	41.2	68.4	207.7
Boeing	4,962.0	5,999.0	6,315.0	1,353.0	316.0	(230.0)	19.1	47.6	80.9
Caterpillar OP	1,875.0	2,303.0	2,873.0	998.0	570.0	(56.8)	10.3	26.3	41.9
Caterpillar UP	1,687.0	1,702.0	1,566.0	−121.0	−136.0	n/a	n/a	14.3	37.7
Chevron OP	2,975	3,406.0	4,612.0	1,637.0	906.0	81.0	NM	13.6	21.3
Chevron UP	157.0	169.0	3.0	−154.0	−166.0	n/a	n/a	0.0	1.1
Chrysler	7,793.0	7,832.0	5,087.0	−2,706.0	−2,745.0	(551.0)	60.5	10.0	107.7
Consolidated Edison	2,117.0	2,822.0	2,972.0	855.0	150.0	(66.3)	9.9	28.7	48.3
Deere OP	1,027.0	1,365.0	1,433.0	406.0	68.0	(51.0)	11.8	15.7	36.9
Deere UP	1,177.0	1,216.0	1,022.0	−155.0	−194.0	n/a	n/a	11.2	42.3
Delta Air Lines	2,410.8	3,487.8	3,175.0	764.4	−312.8	(160.0)	25.8	49	92.0
Dow Chemical	2,021.0	2,460.0	2,773.0	752.0	313.0	(94.0)	3.6	12.5	25.4
Du Pont	7,291.0	8,500.0	13,572.0	6,281.0	5,072.0	455.0	NM	39.1	46.2
Eastman Kodak	3,980.0	5,062.0	6,825.0	2,845.0	1,763.0	114.0	NM	28.9	59.9
Exxon	3,237.0	3,942.0	5,046.0	1,809.0	1,104.0	39.0	NM	6.1	10.7
Ford OP	7,061.4	8,009.0	11,037.6	3,956.2	3,028.6	(406.4)	9.6	6.9	31.2
Ford UP	7,551.1	7,612.7	7,263.6	−287.5	−349.0	n/a	n/a	4.5	33.2
General Dynamics OP	2,817.0	3,119.6	4,026.1	1,209.1	906.5	(74.5)	20.3	61.5	132.5
General Dynamics UP	2.8	2.8	2.7	−0.1	0.1	n/a	n/a	0.0	0.1
General Electric	14,940.0	16,057.0	24,211.0	9,271.0	8,154.0	241.0	NM	18.9	71.5
General Motors OP	14,915.2	16,468.8	21,169.0	6,250.8	4,697.2	(661.5)	13.5	21.9	42.6
General Motors UP	20,679.9	20,758.4	18,885.9	−1,794.0	−1,872.5	n/a	n/a	19.5	59.0
GM Hughes	2,897.8	3,235.8	4,501.8	1,604.0	1,266.0	112.9	NM	36.9	36.7
GTE	4,900.0	7,043.0	11,386.0	6,486.0	4,343.0	13.8	NM	35.6	58.3
IBM	11,708.0	15,451.0	22,867.0	11,159.0	7,416.0	154.0	NM	29.4	30.4
Lockheed	3,620.0	4,182.0	5,711.0	2,091.0	1,529.0	(12.0)	NM	84.1	175.6
McDonnell Douglas	3,290.0	3,848.0	5,887.0	2,597.0	2,039.0	95.0	NM	43.9	100.1
Metropolitan Life	1,113.0	n/a	1,605.0	492.0	n/a	(10.0)	NM	1.6	29.4
Minnesota Mining & Mfg.	1,965.0	2,449.0	2,533.0	568.0	84.0	(68.0)	5.2	25.9	38.5
Mobil	1,796.0	2,352.0	2,530.0	734.0	181.0	(54.0)	2.9	6.5	11.1
Monsanto	2,421.0	2,768.0	3,647.0	1,226.0	879.0	(1.0)	NM	42.4	91.4
Northrop OP	1,381.7	1,727.8	2,824.2	1,442.5	1,096.4	(9.5)	NM	88.4	157.9
Northrop UP	31.6	37.2	0.0	−31.6	−37.2	n/a	n/a	0.0	3.0
NYNEX	8,461.0	10,362.0	13,346.0	4,885.0	2,984.0	(50.0)	5.8	51.5	90.2
Pacific Gas & Electric	2,131.3	2,978.2	3,075.2	943.9	97.0	(104.0)	10.4	17.6	29.6
Pacific Telesis	6,540.0	7,276.0	10,512.0	3,972.0	3,236.0	(87.0)	6.5	49.6	82.9
Philip Morris	3,026.0	3,866.0	5,110.0	2,084.0	1,244.0	(33.0)	1.1	13.3	31.6
Prudential Insurance	2,776.0	3,226.0	4,816.0	2,040.0	1,590.0	157.0	NM	2.9	59.1
Rockwell Int'l	4,247.5	4,893.4	6,154.2	1,906.7	1,260.8	94.0	NM	68.8	106.5
Sears, Roebuck OP	3,558.0	4,566.0	5,460.0	1,902.0	894.0	(88.0)	5.5	6.3	26.1
Sears, Roebuck UP	34.0	45.0	2.0	−32.0	−43.0	n/a	n/a	0.0	0.2
Shell Oil	2,472.0	2,828.0	3,744.0	1,272.0	916.0	(44.0)	3.0	13.6	15.4
Southern Co.	1,065.0	1,631.0	2,347.0	1,282.0	482.0	(5.0)	0.8	11.7	15.5
Southwestern Bell	4,483.2	4,412.2	7,201.9	2,738.7	2,789.9	61.9	NM	34.0	55.3
Textron OP	1,481.6	1,709.7	2,206.4	724.8	496.7	(7.2)	2.7	16.0	58.2
Textron UP	389.2	337.4	250.3	−78.9	−87.1	n/a	n/a	1.8	12.9
Unisys OP	2,424.8	2,937.6	3,221.4	796.6	283.8	(55.8)	NM	30.0	62.5
Unisys UP	104.0	105.3	43.7	−60.3	−61.6	n/a	n/a	0.4	2.7
United Technologies OP	5,429.0	5,443.0	5,478.3	2,049.3	1,035.3	(5.7)	0.8	44.4	93.4
United Technologies UP	274.4	341.8	121.1	−153.3	−220.7	n/a	n/a	0.8	5.8
U S WEST	4,170.0	5,210.0	8,271.0	4,101.0	3,061.0	109.0	NM	32.5	51.7
USX	7,904.0	8,341.0	9,572.0	1,638.0	1,231.0	240.0	NM	54.7	138.3
Westinghouse Electric	4,640.0	5,074.0	4,454.0	−186.0	−620.0	(108.0)	10.6	21.9	105.8

Definitions:

ABO: Accumulated benefit obligation. The value of all benefits earned to date.
PBO: Projected benefit obligation. A measure of the liability for accumulated service reflecting future salary increases.
NM: Not material
OP: Overfunded plan
UP: Underfunded plan

Source: Companies' 1989 annual reports, all dollar figures are in millions

Getting a jump on stocks

Credit market offers insight into future equity activity

By William G. Shipman

Interest rates are primordial in understanding not only the volatility of both the U.S. economy but also the stock market.

During the summer of 1987, well before the crash, they indicated that during the next year the stock market was headed for deep trouble and investors would be well served to move into riskless assets. While their importance to economic vitality is widely accepted, the ability of the credit market to anticipate relative returns among, or within, asset classes largely has gone unnoticed.

Importantly for equity managers, interest rates' enviable and long lead-time forecasting capability is unbiased and readily available.

Interest rates' broad application to forecasting and asset strategy emanates from the role the rates play in the relationship between inflation and taxes. As inflation rises, so do tax rates; and interest rates are the market's best assessment of how much inflation is on the horizon.

The economy's response to a change in tax rates follows a systematic pattern. An anticipated tax hike brings forward taxable activity to the present. Symmetrically, lower prospective taxes retard commerce in the near term.

A projected tax rate increase (decrease), therefore, is associated with stronger (weaker) growth this year and a drop (rise) in output later. Interest rates forecast this volatility with upward of a two-year lead time.

The stock market also foretells ups and downs in the economy, but its lead time is shorter. This lead-time differential, or market inefficiency, is key to the ability of the credit market to anticipate equity trends.

As an empirical matter, stock prices are related to both current and historical interest rates. Estimating the outlook for the equity market requires, in part, knowledge of probable future interest rates. As illustrated in Exhibit 1, spot Treasury bill prices have an impressive record at getting a fix on this important variable.

The mean basis point difference, or error is 61. The T-bill futures market also forecasts interest rates. Its error for the same interval is 74 basis points, and the standard deviation is almost twice as high.

The Standard & Poor's 500 Stock Index, as well as the 80 or so industries that comprise it, are interest-rate sensitive. This may be common knowledge for sectors such as housing and autos, but what generally is not appreciated is the differing and significant statistical relationships between the credit market and the remaining groups.

This allows for modeling of the stock market. The architecture is the linkage between the interest rate set and the relative return of the composite to each of its industries. Standard statistical techniques are used to estimate the probability that each industry will outperform the market during the following 12 months. Probabilities are ranked in descending order from high probability industries, or HPIs, to low probability industries, LPIs.

A number of asset management styles can exploit this quantitative approach.

For example, an active equity strategy would invest in the eight to 16 S&P industries ranked at the top of the list: those with the greatest chance of outperforming the market during the next year. Historical simulations suggest investing in this range of groups earns returns well in excess of the S&P. Including more HPIs begins to lower the results toward that of an index fund. Stock selection is limited to the companies S&P includes in its industry sectors. Each security position is weighted by market capitalization.

Tactical asset allocation is easily accomplished by adding T-bills as an asset class to the above strategy. In this approach, the first step is estimating the probability that the composite will return more than a riskless asset over one year. This is achieved by regressing the differential in the historical total return of the S&P 500 vs. T-bills on the interest rate set. If the probability of a higher equity return is sufficient, assets are invested in the portfolio described above. If it is not, they are deployed in short-term paper.

For the above strategies, probabilities are re-estimated each month for the market vs. T-bills and for each industry vs. the market. This continuous flow of new information guides rebalancing.

The last style, long/short, leverages both of the foregoing. If bullish on the market, buy the HPIs. If bearish, then short the eight to 16 industries that are most likely to underperform the market.

While historical results are no guarantee of the future, characteristics of the strategies, shown in Exhibit 2, are intriguing.

Volatility relative to return (coefficient of variation) is less than that of the market for all three portfolios. The standard deviation of returns for each style can be reduced to below that of the S&P, while still maintaining higher relative performance, by introducing a non-volatile asset such as short Treasuries. Risk/return preference determines their appropriate weighting.

This quantitative approach to investment strategy offers many advantages.

The input variable, T-bill rates, is a market price that, at the margin, incorporates investors' latest known information.

Also, the U.S. government debt market is broad-based, liquid and reflective of global concerns. These include inflation, changing marginal tax rates, currency risk, the budget deficit, and the real rate of interest.

In addition, the equity strategy can be used effectively in conjunction with passive management by tilting an index fund toward high probability industries or away from LPIs. ■

Exhibit 1

The predictive ability of T-bills

Year	Average T-bill yield	Spot price at end of previous year	Difference
1989	8.11	8.10	0.01
1988	6.67	5.68	0.99
1987	5.78	5.67	0.11
1986	5.97	7.05	1.08
1985	7.47	7.85	0.38
1984	9.54	8.97	0.57
1983	8.62	7.92	0.70
1982	10.60	11.08	0.48
1981	14.04	14.30	0.26
1980	11.46	12.04	0.58
1979	10.05	9.26	0.79
1978	7.18	6.13	1.05
1977	5.26	4.34	0.92

Exhibit 2

Risk/return characteristics of three portfolio styles

Historical simulations 1980 - 1989

	Active equity	TAA	Long/ short	S&P
Annualized return (%)*	21.94	24.88	27.83	13.40
Standard Deviation	16.49	15.01	26.53	13.05
Coefficient of variation (%)	75.16	60.33	95.33	97.39
Alpha	10.10	21.03	27.81	NA
Beta	0.91	0.33	0.15	NA

*Returns for 1980 - '87, except for long/short strategy, are appreciation only. Fees and transaction costs have not been deducted.

Mr. Shipman is managing director of BRS Capital Management Inc., a Boston-based investment management firm.

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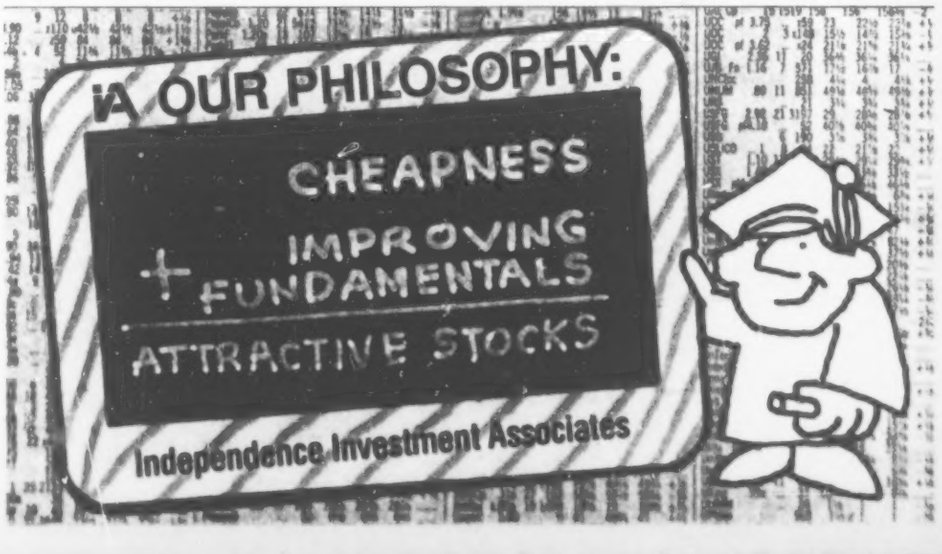

Transfer

Continued from page 1

While the revenue lost as a result of the tax "would be an expensive $600,000," Mr. Grant said, one reason corporations are reluctant to oppose a securities transfer tax is that this type of indirect tax would allow plan sponsors more investment flexibility than a direct tax on corporate or pension fund earnings.

"Everybody is resigned to the fact that some increase in taxes is inevitable," Mr. Grant said. "This (tax) may be viewed as a less onerous way of raising tax revenue."

Officials of public funds, which generally are less well funded than corporate ones and would feel the impact of revenue loss sooner, vigorously oppose the tax.

The tax would slash investment revenue, and ultimately would force public employers to increase taxes to honor guaranteed benefits, and possibly force some actively managed funds to adopt passive strategies, California Teachers' Mr. Mosman said during a press briefing for the Council of Institutional Investors.

"Any time you start mitigating an investment return, ultimately it is going to result in an increased cost for the taxpayer," he said.

According to estimates, the $31 billion California Teachers' plan would have to pay a $9.5 million annual tax on security sales of $1.9 billion. The cost to the fund, which is 80% indexed, would be 3 basis points and would increase administrative costs by 66%, Mr. Mosman said.

That's minor compared to the 71 basis points the Los Angeles County Employees' Retirement Association would have to pay, Mr. Mosman commented. The L.A. County fund, which has $9.3 billion in assets, of which all but $450,000 is actively managed, has estimated its costs to be $64.7 million on sales of $12.9 billion.

If such a tax were imposed, benefits could be jeopardized, Diane Sandoval, manager of L.A. County's retirement accounting division, said in an interview.

"The more expenses you have, the less growth you have, the less benefits you provide," Ms. Sandoval explained. Plus, "the entire strategy of the plan would have to be visited. And the consultant along with the board would have to take a hard look at passive management."

Cathie Eitelberg, director of the pension and benefits program at the Government Finance Officers Association, Washington, agreed: "I think a lot of plans will look at passive investing because of the hit they might be taking.

"An aggressively managed plan typically will have more transactions than does a passively managed plan. There's a double whammy there. You get hit with fees and you get hit with a tax."

While the tax is only one of many revenue raisers under consideration, it already has attracted widespread opposition from Wall Street and from organizations in the investment community.

Because the tax has yet to be proposed, it remains unclear as to what instruments the tax ultimately would affect and whether rates would differ among security types.

Still, Donald Kiefer, senior specialist in economic policy with the Congressional Research Service, Library of Congress, estimated the tax would decrease the volume of trading by 8.1% and decrease the value of the market by 7.9%, or take 236 points off the Dow Jones Industrial Average.

While the tax is expected to reduce liquidity and market efficiency, proponents have argued it also would reduce short-term speculative trading.

Wyatt's Mr. Schneider noted the amount of revenue plans would lose to the tax would vary depending on turnover and other factors.

Nevertheless, he said, "I don't see corporations running for the hills saying 'They're taxing us half a percent,'" he said.

One indicator of corporate pension funds' reluctance to oppose the tax was the absence of some corporate industry groups from a July 16 letter opposing the tax sent to John H. Sununu, chief of staff to the president.

The letter was signed by 26 business and financial organizations, but didn't include the Financial Executives Institute, the ERISA Industry Committee and the Business Roundtable. The
sociation of Private Pension
Welfare Plans, the Governm
Finance Officers Association
the National Association of S
Retirement Administrators w
signees.

Spokesmen for the FEI
ERIC said their members are c
cerned, but they're waiting for
total tax proposal.

The bottom line on a transactions tax
(Tax in parentheses)

The five funds on the chart are the largest public pension funds in California. They represent a combined membership of nearly 1.5 million active and retired participants and have combined assets exceeding $100 billion. The costs were figured using 1988-'89 security transactions and assuming a 50-basis point tax.

California Public Employees'
Sales: $7,774 million ($38,856,480)
Purchases: $18,032 million ($90,162,486)

California State Teachers'
Sales: $1,919 million ($9,455,000)
Purchases: $22,773 million ($113,865,000)

Los Angeles County Employees'
Sales: $12,937 million ($64,688,932)
Purchases: $13,440 million ($67,204,140)

San Francisco City & County Employees'
Sales: $3,336 million ($16,680,000)
Purchases: $4,179 million ($20,900,000)

Los Angeles City Employees'
Sales: $910 million ($4,550,000)
Purchases: unavailable (NA)

All Systems
Total sales: $26,876 million ($134,230,412)
Total purchases: $58,424 million ($292,131,626)

Source: California State Teachers' Retirement System, Sacramento

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Continued from page 1

said. "I'm not sure there is a right or wrong."

Gary Pines, vice president of Towers Perrin, Chicago, said there is a wide range of acceptable assumptions. Rate of return assumptions, he said, were commonly 4% or 5% in the 1970s, but the bull market made higher ones widespread.

Often, a change in the assumed rate of return on assets makes a contribution cut possible, although some states have raised this assumption without cutting funding. Instead, the higher return rate allowed them to increase benefits or just to recognize their good investment experience.

Other actuarial changes also can produce reduced contributions. In California, Gov. George Deukmejian has proposed the $58 billion California Public Employees' Retirement System change the way it accounts for actuarial gains or losses related to the retiree death rate. Instead of recognizing these gains or losses over the system's full funding period — 26 years — it would recognize them over five years, said Dale Hanson, chief executive officer of the fund.

The system's staff already had suggested such a change, which would save $250 million in contributions for the fiscal year that began July 1, but trustees have not voted on it yet, Mr. Hanson said. He expressed surprise the governor would propose legislation on a change that has not yet received board approval.

In New York, funding formula changes legislated earlier this year will save the state about $385 million in contributions to the $28.1 billion New York State Teachers' Retirement System and between $306 million and $444 million in contributions to the $44.2 billion New York State & Local Retirement Systems (*Pensions & Investments*, June 11).

The assumed rate of return on investment for the State of Connecticut Trust Funds has been raised to 9% from 8.5% for the 1990-'91 fiscal year that began July 1, said Frank McDermott, assistant treasurer-investments. It's as yet unknown how much this will reduce contributions, but it is part of the state's attempt to balance its budget, he said.

In Arizona, the change in actuarial methods and other factors, including benefit increases and a contribution shortfall in the previous year, will make the 1990-'91 employer contribution 3.82% of the $3 billion payroll for employees covered by the retirement system, Mr. Gallison said. In the 1989-'90 fiscal year, under the previous methodology, the contribution should have been 4.69% of payroll, but the Legislature set it at 2% because of a budget squeeze. Employees make an equivalent contribution.

The actuarial change alone would have reduced the contribution rate by 1.67 percentage points, Mr. Gallison said. This works out to a roughly $50 million saving.

In 1989, the Minnesota Legislature upped the rate of return assumption for the $2.1 billion Minnesota State Retirement System to 8.5% from 8% but also raised the salary increase assumption to 6.5% from 6%, largely to provide improved benefits.

These changes made employer contributions rise to 4.51% of payroll in 1989 from 3.73% in 1988; this year, however, they were scaled back to 4.29% of the $1.5 billion payroll for covered employees, about a $3.3 million difference, said Paul Groschen, executive director of the state fund. The 1989 figure had been higher than necessary, but it wouldn't have been scrutinized had the state not been in a budget crunch, he said.

At the behest of the state Legislature, the Rhode Island Retirement Systems reviewed actuarial assumptions earlier this year and raised the rate of return assumption to 8% from 7.5%. This change is expected to save $12 million in contributions for the 1990-'91 fiscal year.

The $700 million Vermont State Employees' and State Teachers' Retirement Systems raised their rate of return assumption to 8.5% from 8% for the fiscal year that began July 1, 1989, and the state saved roughly $3 million in contributions that year. The state Legislature had suggested the change, but the systems' actuaries had no problem with it, said George Bruce, director of retirement and investment services.

The $2.25 billion Louisiana State Employees' Retirement System raised its rate of return assumption to 8.25% from 7.5% earlier this year. It was scheduled to review the assumptions this fall, but was asked to move up the process because of the state's financial problems, said Thomas D. Burbank Jr., executive director.

He emphasized, however, the change in the rate was actuarially justified and not just a means to help out the state. The change reflects the diversification of the system's asset allocation in recent years that likely will produce better performance. For instance, the system's maximum allowable
uity allocation has moved to 5
from 35% in the past two years
said.

The assumption change will
duce state contributions $24 m
lion this year; a carryover fro
prepayment adds a $20 mill
reduction.

The board of the $1.65 bill
Missouri State Employees' Ret
ment System has voted to cha
its rate of return assumption
8.5% from 8%, a move that is
pected to drop contributions
9.7% from 11.5% of the $900 m
lion payroll, a saving of about
million, effective July 1, 1991.

Some states have cut contri
tions without changing actua
assumptions. "The business ab
adjusting assumptions is a jok
said Mike Mory, executive sec
tary of the Illinois State Empl
ees', Judges' and General Asse
bly Retirement Systems.

In Illinois for the past seve
years, Gov. James Thompson a
the state Legislature simply h
allocated less than the actuaria
required appropriation to sta
funded pension systems.

For instance, the allocation
state-funded retirement syste
this year is $475 million. $1
million less than actuarially
quired, said Jim Ofcarcik, ma
ager of long-term debt analy
for the Illinois Economic and F
cal Commission. "You don't h
to change assumptions if you h
control of the appropriation p
cess," Mr. Ofcarcik said.

Ryan Financial starts investment firm

WILMETTE, Ill. — Ryan Financial Advisors Ltd. has started an institutional money management arm, Paragon Asset Management.

Paragon is an asset allocator, mapping out a long-term strategic allocation and making shorter-term, tactical moves as well, s
Mike Ryan, president of be
firms.

The firm targets small pens
plans as its primary clients, wit
typical account being $5 mill
or less.